

AR71



Sierra

annual report 1999

solutions

for a new century

solutions

for a new century

Sierra Systems creates and implements business solutions to optimize the performance of public and private organizations. Sierra's business solutions represent a skilled blend of Change and Transition Management combined with appropriate leading edge technologies. Sierra delivers business solutions by working in partnership with our clients' employees and management. The focus of Sierra's efforts in each client assignment is to build sustainable business improvement.



Technology, facilitated by the Internet, is transforming society today through an electronic revolution more powerful than any fundamental change previously experienced in the history of the planet. In the simplest of terms, the Internet revolution has opened the playing field to everyone on an equal global basis. Sierra Systems leverages the Internet's benefits as appropriate on every assignment.

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Financial Highlights

In this Report, all dollar amounts are Canadian unless otherwise noted.

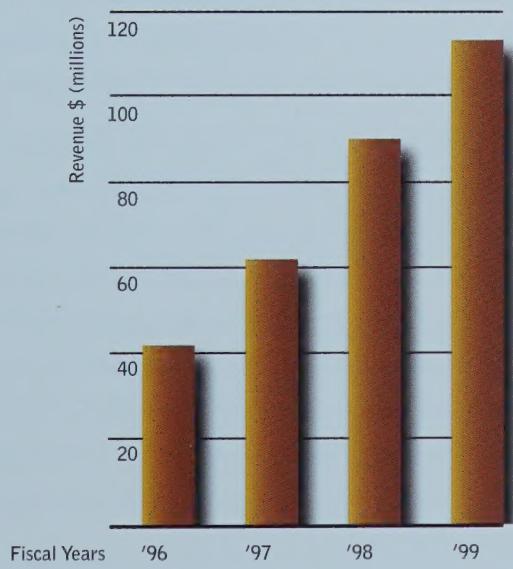
(all figures in thousands of Canadian dollars except per share figures)

	1999	1998
Revenue	\$ 113,089	\$ 90,125
Pre-tax earnings (1)	6,916	13,788
Net earnings	3,507	7,812
Cash flow from operations (2)	5,785	10,056
Shareholders' equity	56,268	50,221
Earnings per share	\$ 0.40	\$ 1.03

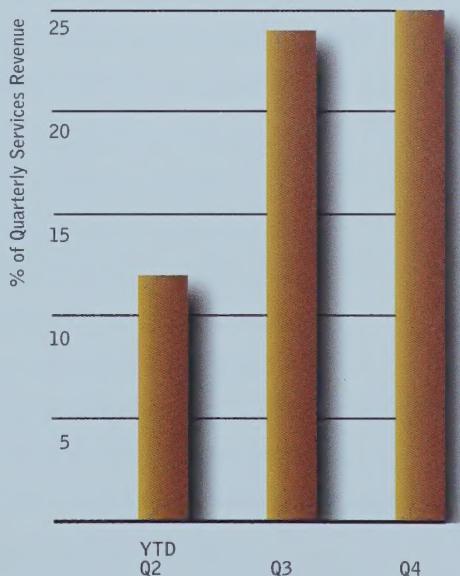
1. Earnings before income taxes

2. Net earnings from operations adjusted by non-cash items

Growth in Revenue



Growth in eCommerce Revenue
(1999)



President's Message

History will mark 1999 as the year in which the "e-World" was implanted into the public consciousness. This maturing of the Internet will alter life in the 21st century much as the steam engine and electricity did in the 19th and 20th centuries. Today, whole new classes of business and customer activity are being created while many established organizations and activities face obsolescence.

Sierra Systems has been planning and preparing for this shift for several years. In 1999, our services revenue from the e-World rose quarter by quarter to 25 percent in Q4. Sierra Systems' opportunities from the e-World are truly staggering. Early in 1999, our clients were initiating small pilot projects to test e-World ideas. By Q4, project sizes grew to the millions of dollars.



"Sierra Systems' opportunities from the e-World are truly staggering. Early in 1999, our clients were initiating small pilot projects to test e-World ideas. By Q4, project sizes grew to the millions of dollars. We anticipate more expansion in the year ahead."

Grant R. Gisel
Chairman, President & Chief Executive Officer



We anticipate more expansion in the year ahead. Quite importantly, the e-World focuses on Sierra's core competency – understanding how to make business and technology work together. This is our major differentiator, as large numbers of new industry participants lack the skills necessary to create effective solutions for complex business needs. Sierra has the industrial strength and large-scale systems implementation experience which, when coupled with our functional and technology knowledge, provides the depth clients deserve as they transform their businesses.

Examples of our e-World projects during 1999 illustrate. At Consumers Energy of Michigan, we implemented an Internet-based Electronic Bill Presentment and Payment facility connected to the company's major back-end systems. Now being piloted by 6,000 customers, the objective is to service all 2.5 million customers. At PepsiCo, Sierra built a resource chain linking 7,000 regional bottlers. For Progistics, Sierra established a "Supply Management" outsourcing service now being used by Xerox Canada. In Los Angeles, working with the County Department of Mental Health, Sierra is building a Web-based intranet application for credentialing, enrolling and maintaining Fee For Service providers. In Calgary, with telephone provider Telus, Sierra is implementing an intranet-based order capture system to coordinate customer sales representatives and dealers.

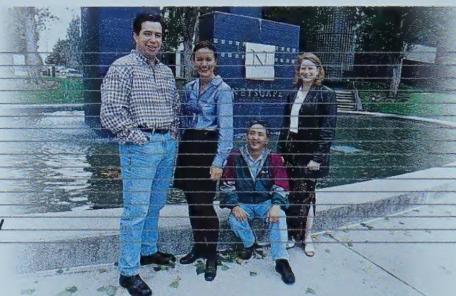
Sierra Systems' transition into the e-World benefited from our close relationships with the Sun–Netscape Alliance and Microsoft's e-business focus. These technology partners have created the tools and software utilized by Sierra's systems integration staff. As we work closer together, these relationships are expanding into various joint marketing opportunities. To facilitate these, Sierra transferred management personnel to our partners' locations to be close to the action.



Acquisition activity continued throughout the year. Integration of three organizations added 96 staff. One of these incorporates a 7 x 24 Application Service capability. Strategically, Sierra is leveraging this facility into our e-World solutions. Many clients are asking us not only to implement e-business solutions but also operate these over the long term. Clients want end-to-end solutions from a provider who has the full spectrum of capabilities and track record. Much of this demand emerges because of the unique technology implications of Web-based solutions on our clients' traditional operating facilities.

Based on client demand, two new offices were opened – one in Detroit, Michigan and the other in Irvine, California. Both focus heavily on our e-World activity. Detroit targets the auto and utility industries while Irvine concentrates on insurance and entertainment.

"Sierra Systems' transition into the e-World benefited from our close relationships with the Sun – Netscape Alliance and Microsoft's e-business focus. These partners have created the tools and software utilized by Sierra's integration staff."



Sun–Netscape Alliance project team

The year presented two unusual challenges to Sierra management. First, our activity in utility industry solutions required additional efforts which, since software costs are not capitalized, negatively impacted our profitability. In spite of this, Sierra has built a valuable asset and our first four utility clients are now in operation. Sierra is well positioned to go forward with experience and confidence, and currently we are determining how best to leverage this investment without any additional cost. Second, an overrun on a large fixed price project caused unplanned write-offs. This activity concluded September 30, 1999. As a direct result of both events, a new corporate Risk Management team, led by three senior partners, was set up in January 1999 to provide corporate oversight on all large-scale or high-risk bids and projects. This process ensures clear expectations are set, risks are identified early, mitigation strategies are formalized and projects are closely monitored. It is fully operational and is making a valuable contribution to all our major assignments.

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Sierra Systems had considerable successes during the year.

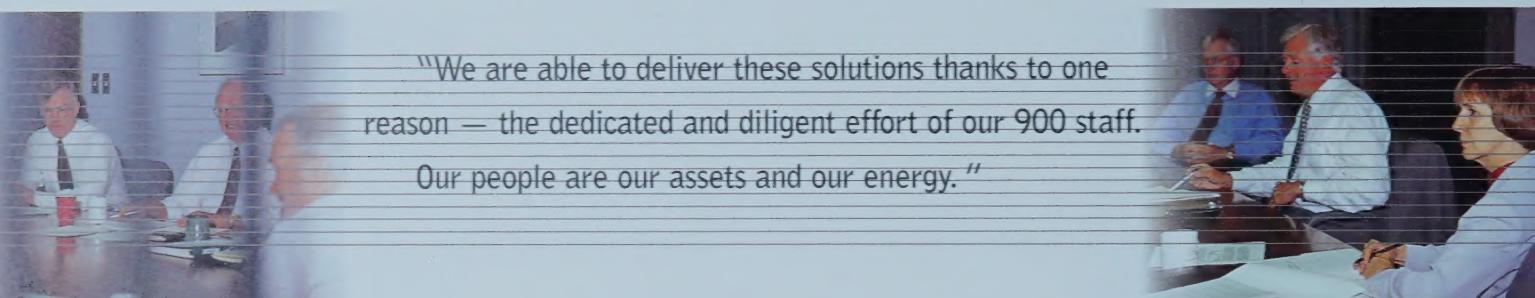
- We are growing – revenue is up by 25% and staff by 29%.
- Our specialty practice strategy is working – over 60% of our revenue comes from our specialties, and we are seeing major opportunities for new, private sector specialties.
- Our acquisitions are providing leverage – for example, we are entrenching our leadership position in supporting Health and Telecommunications organizations.
- Our enterprise solutions focus is positioning us well – we are seeing growth in this while others are seeing significant decreases, and we are leveraging our position to help our clients upgrade, revisit business processes, integrate their applications and extend their enterprise out to their suppliers and customers.

President's Message

Emergence of the e-World in 1999 has profound implications. At Sierra, one such impact is evident in our training activities. More physical classes in more locations consumed several million dollars. In addition, Sierra has created relationships with Internet educators, so specific courses are available anywhere, anytime, to all our staff. Education is key to the knowledge-based economy. Our investment is critical to allow Sierra to stake a major role in the e-World.

Internally, Sierra transitioned our management structures to reflect growth and the retirement of three senior partners. Special mention in this regard must be made of Ian Reid who retired as Executive Vice President and a member of our Board of Directors. Ian was Sierra's Chief Financial Officer for more than 30 years. He managed our finances as we grew from a dozen staff in 1969 and made sure we always proceeded with due diligence and

"We are able to deliver these solutions thanks to one reason — the dedicated and diligent effort of our 900 staff. Our people are our assets and our energy."



financial prudence. His wise counsel and unerring sense of what was the right thing to do will be missed by all of us.

In conclusion, Sierra's service continues to be problem solving to enhance the competitive position of our clients. We are able to deliver these solutions thanks to one reason — the dedicated and diligent effort of our 900 staff. Our people are our assets and our energy. I want to thank each one of them for the many accomplishments delivered to delight our clients over the 1998-1999 fiscal year.

Grant R. Gisel
Chairman, President and Chief Executive Officer

December 22, 1999



Our Mission

Our mission is to enhance the competitive position of our clients through the implementation of information technology based business solutions.

"Sierra Systems is one of Microsoft's most valued partners because of their consistent delivery of high quality work on the Microsoft platform. Sierra's world class expertise with Microsoft tools, proven project management methodologies and deep understanding of a client's business challenges, combine to create successful projects and satisfied clients."

Simon Witts, President, Microsoft Canada Corporation

Our Services

Sierra Systems' services bring together people and technology to implement end-to-end business solutions for administrative and operational systems. Clients represent major public and private enterprises across North America. Specific services include transformational planning, systems definition, design, implementation and application outsourcing.

We focus on providing:

- Enterprise Solutions (finance, human resources and extensions into suppliers and customers)
- eCommerce Solutions (portals, electronic bill presentment, trading communities and large-scale n-tier development)
- Spatial Data and Systems Solutions
- Industry-specific Solutions to a variety of clients in the:
 - Public sector – with a particular emphasis on Justice, Health and Education
 - Private sector – notably Telecommunications, Utilities and Financial Services

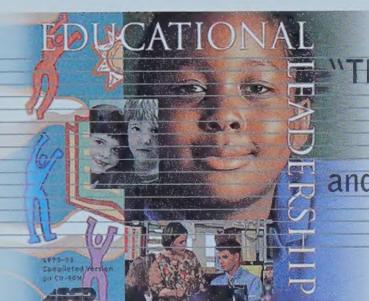
Technology and eCommerce Solutions

With Sierra Systems' leading technology solutions, organizations gain significant advantage in the emerging digital economy. By transforming themselves at the strategic, value chain and core technologies levels, Sierra's clients gain access to new markets and communities opening for networked organizations.

Sierra Systems' eCommerce activity continues to flourish with partners such as the Sun—Netscape Alliance and Microsoft, who have come to rely on Sierra's experience with their products. As well, recent acquisitions enhance our service capability with a 7 x 24 Application Service, Spatial IT capability and wireless satellite technology.



Sun—Netscape Alliance project team



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Association for Supervision and Curriculum Development

"The EL (Educational Leadership) CD-ROM . . . was a challenge in many ways, but we were confident throughout that we would get a good product and on time . . . it couldn't have happened without a strong sense of teamwork . . ."

Judy Walter, Director, Research and Development,
Association for Supervision and Curriculum Development

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CONSUMERS ENERGY As the fourth largest combined gas and electric utility in the United States and the largest in Michigan, Consumers Energy has provided service to Michigan residents for more than 100 years and currently serves 2.5 million customers. Sierra Systems won a competitive bid against some of the world's largest systems integrators to design and develop an Internet-based Electronic Bill Presentment and Payment System, the industry's first electronic bill presentment application designed and built on Microsoft technology.

ASSOCIATION FOR SUPERVISION AND CURRICULUM DEVELOPMENT (ASCD) ASCD is a 160,000 member international not-for-profit education association in Alexandria, Virginia, providing a wide range of educational products and services to the education community. ASCD chose Sierra to electronically publish the most recent six years of Educational Leadership (EL), its popular flagship journal. The new CD-ROM leverages the full value of a data repository and data conversion investments. The result is an invaluable resource contained in a single, searchable location and a new source of revenue for ASCD, positioning the organization for continued innovation.

BRITISH COLUMBIA MINISTRY OF FORESTS Sierra Systems is completing phase one of the ministry's Integrated Corporate Spatial and Attribute Database – INCOSADA. Valued at over \$3 million, INCOSADA transitions multiple legacy systems toward a corporate wide, spatially-enabled relational database management system. INCOSADA provides standards, tools and processes for

a public sector forests mapping infrastructure. INCOSADA and a parallel initiative, TANTALIS, a suite of Web-enabled business applications for Crown land administration, represent the two largest spatial data projects in British Columbia in recent years.

Sierra's teams from both projects form the nucleus of a new business area – Spatial Solutions – reinforcing Sierra's leadership in the fast-developing field migrating Geographic Information Systems (GIS) to corporate Management Information Systems (MIS).

NORTHWESTEL Northwestel brings high value communication solutions to customers in the Northwest Territories, Nunavut, Yukon and northern British Columbia. Services include local telephone service, long distance communication by microwave, satellite and data communications, plus advanced services such as Video Forum, MegaPlan, Frame Relay and the Internet. Sierra assessed the current strategy for upgrading their Customer Care and Billing Systems for growth and consolidation across wireline, wireless and cable. This resulted in a package selection and implementation. The new Northwestel Service Management System went live in September 1999.

Sierra Systems is answering clients by providing solutions that work beyond the new century. Our robust systems provide a powerful foundation for developing technologies, and allow the deployment of innovative solutions for new scenarios as they arise.



Northwestel Inc.

'We selected Sierra to build our first major Internet application because of Sierra's vast Internet development experience and because of their industry reputation for building quality systems on time and on budget....'

Tom Esser, Internet/Notes Development Team Leader,
Consumers Energy



"CIBC World Markets has built a **strong relationship** with both Sierra Systems and PeopleSoft. Sierra brings to the table a **dedicated and highly professional group** of technical resources who understand global issues and how to deliver into a very complex environment. I have been **very pleased** with overall results on all three projects."

Philip Wilson, Managing Director, Human Resources, CIBC World Markets



CIBC World Markets project team

Enterprise Solutions

Clients rely on Sierra Systems' Enterprise Solutions Practice to get help in extending their enterprise closer to their customers, suppliers, employees and business partners. Our repeated success in Enterprise Resource Planning (ERP) solutions, including our Sierra/Express rapid methodology, has streamlined our ability to implement a solid foundation system for business.

Now, Sierra Systems is positioned to help clients capitalize on this "ERP backbone," and use the latest technologies from Sierra partners like Vitria and BEA to extend the enterprise and take advantage of the explosive growth opportunities of the digital economy.

"The partnership created for the implementation of PeopleSoft financials and HR has proven to be very successful. This success has been achieved through strong project planning and management provided by both parties, solid teamwork concepts and effective technical support." Rick Stockman,

Director Budget Services, City of Oshawa

CESSNA AIRCRAFT COMPANY Based in Wichita, Kansas, the Cessna Aircraft Company designs, manufactures and supports personal and business general aviation aircraft. Cessna recognized the opportunity to further streamline production and approached Sierra Systems. Sierra's practical methodology and understanding of the PeopleSoft product suite allowed for a rapid implementation approach. The Cessna project team was able to seamlessly integrate PeopleSoft Time and Labor with the existing PeopleSoft Human Resource Management System, with minimal interruption to its 11,000 employees in numerous plants.

In addition, Sierra acted quickly to prevent potentially costly data duplication. Within one day, Sierra developed a new Web-enabled self-service panel to reduce data entry, greatly enhancing the effectiveness of Cessna staff using the system.

CIBC WORLD MARKETS When CIBC World Markets, a global investment presence, decided to support its U.S., Canadian and U.K. operations from a single database, they turned to Sierra Systems for PeopleSoft knowledge, implementation skill and project management strength. Sierra was a major contributor in the complex task of planning and managing the different implemen-

tation and upgrade needs of the three separate, large projects, with a synchronized "go-live" date. Today, CIBC World Markets has a truly integrated system supporting trans-Atlantic operations.

CITY OF OSHAWA The City of Oshawa, Ontario, is focused on expansion. In response to a growing economic base and a steadily increasing population of 139,000, the home of General Motors of Canada Limited headquarters called on Sierra Systems.

The City needed to simplify and restructure fundamental financial processes to effectively manage growth while controlling costs. The City selected Sierra to draw on its strong PeopleSoft practice, solid reputation and the Sierra/Express methodology for rapid implementation. Using PeopleSoft's Advantage Toolkit product, Sierra completed first implementations within budget in just over eight months.

Many Sierra Systems clients already use extended features through Internet and intranet technologies and are looking again to advance their capability. Sierra responds to this demand and crosses the boundaries of Customer Relationship Management (CRM), supply chain, Finance, HR and Payroll by integrating applications. Sierra's success with taking leading ERP technologies to the next level positions organizations to leverage the full value of enterprise solutions.

Justice Solutions

For more than 15 years, Sierra Systems has created justice solutions for some of the toughest information management problems in U.S. and Canadian justice systems. Increasingly, the public has come to expect and demand more of justice systems. People want officials to have better ways of identifying and dealing with repeat offenders, relieving crowding in jails and prisons and deploying police officers to high risk areas at the right time to deter criminal activity. All agencies are under pressure to operate more efficiently, and are incorporating technology to improve information quality and access. Sierra combines information technology acumen with years of justice application experience to produce award-winning solutions for our clients.



Government of British Columbia, Ministry of Attorney General project team

For more than a decade Sierra Systems has created award-winning justice solutions our clients rely on. Sierra Systems makes information management visions a reality.

LOS ANGELES POLICE DEPARTMENT (LAPD) LAPD is the second largest police organization in the United States with more than 9,000 sworn police officers working in over 22 separate locations across the City. With incidents resulting in over 100,000 felony and misdemeanor arrests each year, the Department depends on effective information technology solutions to manage its complex operations. Sierra has been helping the LAPD realize the benefits of that technology for many years, and has completed numerous projects as well as related projects for other City and County agencies. Sierra's experience and track record are clearly valued by the LAPD.

GOVERNMENT OF BRITISH COLUMBIA, MINISTRY OF ATTORNEY GENERAL The Ministry of Attorney General is responsible for the justice system in British Columbia. Sierra Systems has been a key partner with the ministry since 1995, working to build a fair and effective system by improving information use. Sierra developed and implemented JUSTIN (JUSTice INformation System), a fully integrated criminal case-tracking system. JUSTIN enables data sharing for all criminal cases, from initiation to disposition, using Oracle technology. From police officers and Crown counsel to victim services and administrative staff, JUSTIN provides province wide seamless case processing.

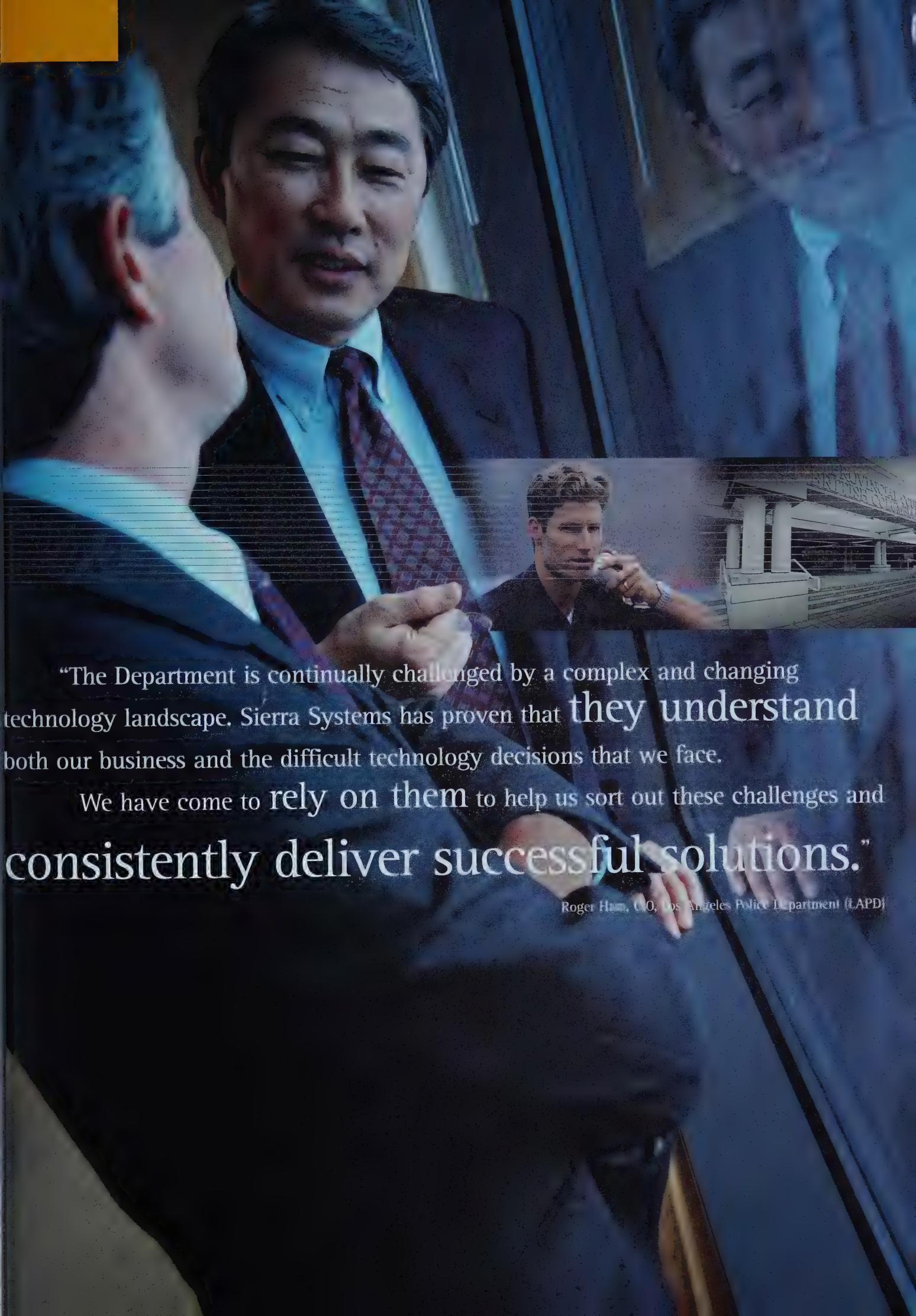
Sierra's work on JUSTIN, combined with projects completed for offender and lock-up management systems and criminal history query, provides one of few success stories in the widely pursued objective of integrated justice. These successes lay the foundation for the ultimate vision of integrated justice, which

includes eCommerce and document and workflow management. Sierra continues to work with the ministry to bring this vision to reality.

KING COUNTY SUPERIOR COURT King County Superior Court in Seattle, Washington receives about 6,000 court case documents each day. This volume created a logistical crisis, and led to the Department of Judicial Administration contracting Sierra Systems for a records management solution. Sierra designed, developed and implemented an electronic court records system called Core Electronic Court Records (ECR). The solution is based on Microsoft technology for the basic infrastructure and interfaces, and FileNET for software to manage the capture, indexing, caching and storage of documents.

Productivity improvements of ECR allow the Court to avoid substantial increases in staffing costs, with further reductions possible as more documents are electronically converted. The Court will also benefit from improved case file access and integrity. With Sierra, the Court gains a strong foundation on which their system can continue to grow.

Sierra takes the time to understand the environment and issues facing each client. Whether a client is looking for help dealing with day-to-day operational issues or planning and implementing information technology solutions to take advantage of new capabilities, Sierra is a partner for the long term. We help organizations successfully apply information technology solutions to implement new ways of doing business. Sierra Systems makes information management visions a reality.



"The Department is continually challenged by a complex and changing technology landscape. Sierra Systems has proven that **they understand** both our business and the difficult technology decisions that we face. We have come to rely on them to help us sort out these challenges and consistently deliver successful solutions."

Roger Hu, CIO, Los Angeles Police Department (LAPD)

"CIHI was faced with the daunting task of initiating 38 major projects over the next four years. Sierra Systems did a splendid job of facilitating us through the necessary planning processes, so as to allow us to tackle the job ahead with confidence and vigour."

Richard L. Alvarez, President and CEO, Canadian Institute for Health Information



Health Solutions



Women's & Women's Health Centre
British Columbia project team

Sierra Systems delivers leading health solutions to clients in the U.S. and Canada, building on successes spanning nearly two decades. We understand how important the access to reliable information is to informed decision making by all consumers, providers and managers of the health system. We also appreciate the concerns over privacy and confidentiality of personal information. The involvement of our health solutions professionals in key roles in professional organizations such as AMIA (American Medical Informatics Association) and COACH (Canadian Organization

for Advancement of Computers in Health), ensures our private and public health clients have access to leading edge thinking from health systems around the world.

"Sierra Systems has consistently provided us with the support, advice and the resources necessary to ensure a successful implementation. The Sierra team have been professional, conscientious individuals committed to the project from 'Fit Gap' to operationalizing the system. It is a pleasure to work with them."

Shelley DaCosta, Compensation and Benefits Specialist,
Human Resources, Hamilton Health Sciences Corporation

DEPARTMENT OF MENTAL HEALTH Los Angeles County

Department of Mental Health (DMH) administers the mental health care public system for over 100,000 clients. In 1997, Sierra Systems assisted DMH by creating centralized access to services for clients and their providers, the Access Center Client Management. Since then, Sierra was awarded a \$1 million contract to Web-enable the system for credentialing, enrolling and maintaining Fee For Service providers – a Managed Care Administration System. With further system enhancements projected, Sierra is ready to assist DMH meet the needs of the mental health population of Los Angeles.

CANADIAN INSTITUTE FOR HEALTH INFORMATION (CIHI) As a federally chartered but independent, not-for-profit organization, CIHI plays a critical role in the development of Canada's health information system. CIHI was recently awarded \$95 million by Health Canada to implement significant enhancements to their health information bases, and engaged Sierra Systems to help in a number of areas. Sierra planned the delivery of the program, as well as the Information Management and Technology (IM/IT) and developed a recruitment strategy for IM/IT staff. Sierra is now assisting with executing the plan.

HAMILTON HEALTH SCIENCES CORPORATION (HHSC) Created in 1996, HHSC amalgamates several hospitals in the Hamilton-Wentworth area serving 2.2 million people. To improve information management and the associated systems managing health services delivery, HHSC asked Sierra Systems to help with their enterprise systems implementation. Sierra assisted in all aspects,

analyzing operations and identifying inefficiencies in some current systems. With Sierra's help HHSC was able to consolidate the administration and processing of the business systems across all of the amalgamating hospitals.

CILDREN'S & WOMEN'S HEALTH CENTRE OF BRITISH COLUMBIA The Clinical Information System Redesign project is a key component of the Clinical Information System project underway at the Children's and Women's Health Centre of British Columbia (C & W). Sierra Systems reviewed and redesigned clinical information flows in four categories: Access to Services, Documentation and Information Retrieval, Order Entry, and Results Reporting and Scheduling. C & W now has the ability to make well-informed projections on potential costs and benefits of the redesigned system. Process teams of clinical and support staff represent the initial step toward a comprehensive electronic patient record system.

Sierra Systems sets the foundation for future growth by applying systems thinking and proven progressive technology to health services. Sierra helps clients in many sectors of the health industry surpass earlier capabilities and streamline information access and handling. We are particularly proud to have been recently asked to develop a blueprint and plan for integrating health information systems across Canada. For proven methods and specialized expertise, Sierra is sought out as the preferred IM/IT partner of health organizations across North America.

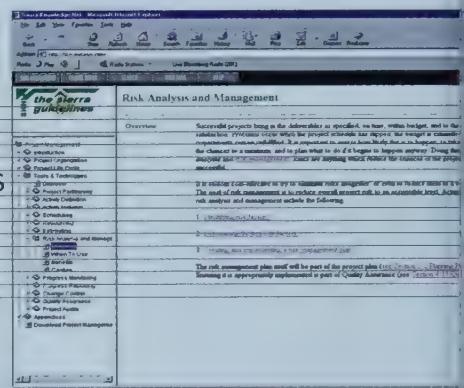


Risk Management

Today organizations have more factors to consider for their systems implementations than ever before. The increasing pace of technological change, the need to deliver solutions in "Internet time" and the added complexity and greater size of projects can be overwhelming. If these elements are not managed properly, they threaten not only successful project delivery but also can translate to cost and schedule overruns.

In response to these greater challenges, Sierra Systems has formalized a Risk Management Process to enhance our current company wide project management practice.

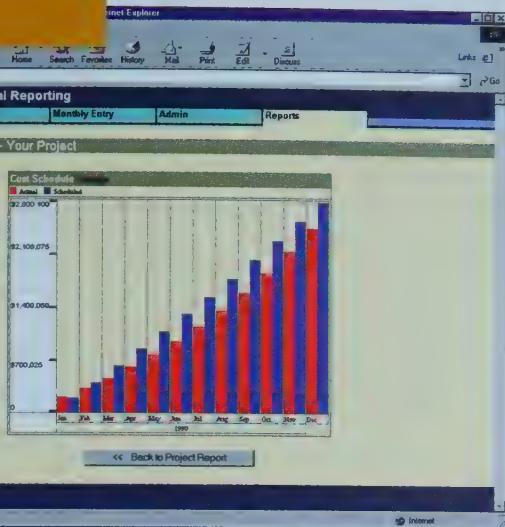
**Effective Risk Management practices are essential
to the successful implementation of business systems
for the new digital economy.**



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Corporate Risk Management team (left to right): Frank Carr, Bob Graham, David Wills



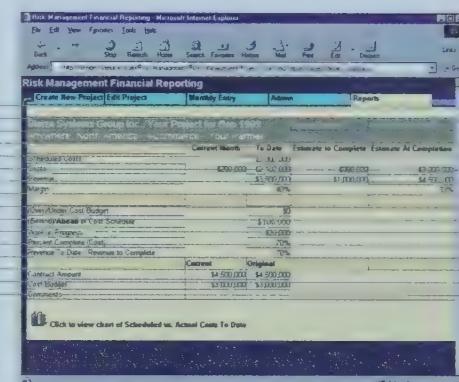


Our project managers work within a standard framework for reviewing proposals and contracts, and monitoring project budgets, schedules and quality. Delivery managers coordinate project review activity at every branch and report back to senior management monthly.

Through Sierra's knowledge-based

intranet, project managers access best practices guidelines, track large opportunities and report progress on major projects to our corporate Risk Management team.

A combination of experience, best practices, a Risk Management process and effective communications enables Sierra to manage the risks inherent in all new technology projects. Sierra's Risk Management process helps us deliver the full benefit of information technology to our clients.



The corporate Risk Management team provides ongoing education and advice on all aspects of project management, including risk assessment, risk management, contracting, estimating and project team dynamics.

All projects are subject to review by an independent management team, and all large or high-risk projects are monitored and reviewed by the corporate Risk Management team. Our Risk Management process aims to create expectations that are understood by both Sierra and the client and are agreeable to both parties. Sierra's Risk Management practices ensure project risks are identified and prioritized early, and appropriate action is taken to manage them.

Projects that explore new technology are inherently risky. Sierra Systems' Risk Management Process provides a way to manage these risks, so that clients can fully realize the benefits of technology.



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Management's Discussion and Analysis

Financial Highlights

Sierra Systems' revenue for fiscal 1999 was \$113.1 million, an increase of 25% over 1998. Head count increased 29% during fiscal 1999, but revenue growth and profitability were adversely affected by two projects. After tax profit before goodwill amortization declined 50% to \$3.9 million or \$0.45 per share. The Company has provided in fiscal 1999 for all remaining losses on the two projects. The Company completed the acquisition of Pacific International Mapping Corp. (PIM) in July 1999, Systems Interface Inc. (SI) in September 1999 and acquired a 49% interest in Donna Cona Inc. in September 1999. Specialty practices generated 64% of revenue in fiscal 1999.

Review of Operations

Difficulties with two projects adversely affected results for fiscal 1999. First, Sierra Systems' project to develop a customer information solution for the utility industry required significantly more investment than budgeted. Despite these difficulties, the Company licensed this new software to five sites, four of which are now live. One enhanced release of the production version will be completed in the third quarter of fiscal 2000 and financial charges in the fourth quarter of 1999 provided for all further losses on this project. Second, a fixed price project exceeded budget. This concluded in the fourth quarter of fiscal 1999 and all associated costs were written off in the fourth quarter of fiscal 1999. The cost of these overruns in fiscal 1999 was \$6.8 million.

Revenue, which increased 25% in fiscal 1999, was adversely affected by cost overruns on the above noted projects. Services revenue increased 24% and the head count growth in the year was 29%. Average revenue per employee remained constant.

Product sales increased by 83% and product sale margins improved to 23% from 14% in fiscal 1998. Sierra Systems does not build and sell its own licensed product. Product sales are a result of the resale of product, usually as part of relationships with our partners and as part of our systems integration activity. These sales are therefore highly variable and a small percentage of our total business.

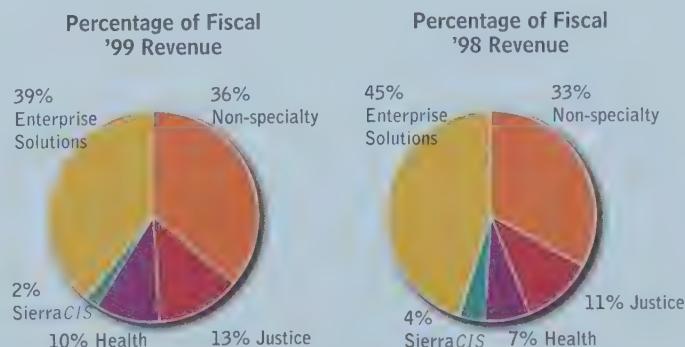
Gross profit from services revenue declined to 18% from 25% in the prior year primarily due to the \$6.8 million of costs noted above. Reducing the compensation cost base by \$6.8 million would change the gross profit percentage for the current year to 24%, and the ratio of compensation costs to services revenue from 72% in the current year to 66% (compared to 65% in fiscal 1998).

Other costs increased by 27% from 1998 but as a percentage of services revenue by only 0.2%. These costs include non-recoverable travel, education and recruitment. Education costs increased by 2% compared to fiscal 1998. This increase is less than the growth of head count and revenue due to more cost effective delivery of educational courses. Hours spent by consultants in education increased by 30%.

Specialty Practices

Sierra Systems derives competitive advantage from its in-depth, functional knowledge of the client's area of business in certain specialty practices. The Company's geographically dispersed offices results in local knowledge to support its local client base. When this knowledge applies broadly across its diverse operations, it is organized as a specialty practice. Criteria for specialty practices include long-term market size, a capability to create competitive advantage and a sound business plan with a focused market development strategy. To be designated a specialty practice, Sierra Systems must foresee annual revenues of at least \$20 million. Specialties are expected to have a lifetime of at least five years at superior margins but new ones must be regularly added to replace or augment declining practices.

Specialty Practices



Management's Discussion and Analysis

Enterprise Solutions Practice

The Enterprise Solutions Practice (ESP) is focused on the implementation of enterprise wide applications in the human resources and financial management areas. A significant portion of this specialty practice has been the implementation of PeopleSoft applications, but has also included SAP and Oracle applications. This practice is mature and has been a strong driver of growth for the Company over the past eight years. The healthy growth rate of 11% in 1999 did not match overall company growth. Revenue in 1999 increased to \$44.6 million from \$40.1 million in 1998. It is anticipated that this practice will continue to lag overall company growth in the future.

Justice Practice

The justice field can be divided into police, courts and correctional facilities. The Company's Justice Practice is in a rapid growth phase. Revenues in 1999 grew 47% to \$14.1 million from \$9.6 million in 1998. As Sierra Systems broadens the reach of this practice from western Canada and the United States to the east, it is anticipated this practice will grow in excess of the growth rate of the Company.

Health Practice

The Company's Health Practice is largely focused at the provincial/county/state level and has displayed strong growth over the past two years. Revenue in 1999 increased 66% to \$10.8 million from \$6.5 million in 1998. Sierra Systems' strategy is to broaden the reach of this practice from a strong base in western Canada to eastern Canada and the United States. The Company anticipates this practice will grow at rates in excess of the Company.

Sierra's Customer Information Systems Practice

Sierra Customer Information Systems (SierraCIS) is a specialty practice centered on a proprietary system for public utilities and municipalities. The Company has completed development of this system to capitalize on deregulation in this sector, but has not capitalized any development costs in relation to the development of this system. Sierra Systems is now reviewing options

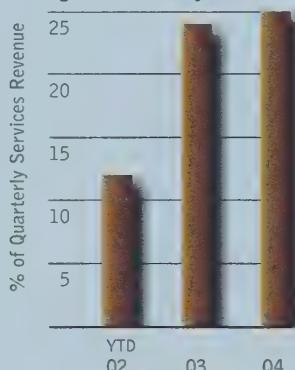
and determining how best to leverage this investment without additional cost. Sierra Systems does not anticipate rapid growth in fiscal 2000. Revenue contracted in 1999 by 34% to \$2.5 million from \$3.7 million in 1998 as a result of cost overruns discussed above.

Other Market Segmentation eCommerce

There has been considerable activity in fiscal 1999 in the sphere of eCommerce, bringing to fruition two years of activity and building skills in this area. The Company has determined that eCommerce will not be a specialty practice. Sierra Systems' business strategy is to embed eCommerce in every engagement that it undertakes. The Company began tracking projects delivering Web-enabled and n-tier architecture solutions in the second quarter of 1999. The following graph illustrates the growth in this important area.

Growth in eCommerce Revenue (1999)

Percentage of Quarterly Services Revenue

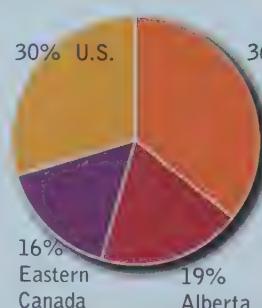


Geographic Distribution

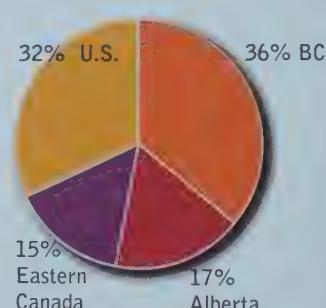
Sierra Systems' strategy is to diversify from what has been its traditional geographic base of western Canada and the United States.

Geographic Distribution

Percentage of Fiscal '99 Revenue



Percentage of Fiscal '98 Revenue



Year 2000 Remediation

Sierra Systems has not had significant involvement in the remediation of systems to make them Year 2000 compliant. Estimated revenue for 1999 is 2%. The implementation of some enterprise wide systems resulted from decisions to replace systems as opposed to remediating them. The Year 2000 focus had caused some companies to defer changes to large production systems as the end of calendar 1999 approaches. The Company anticipates that the volume of systems development and implementation will increase in the coming year due to the technological phenomenon of the Internet.

Corporate Items

General and administrative costs were 9.7% of total revenue in 1999 as opposed to 8.5% in 1998. On an absolute basis, there was an increase from the prior year of 43%, the principal areas of increase being occupancy costs, legal and accounting fees to support acquisition analysis and an increase in the number of administrative employees.

Amortization of capital assets of \$2.6 million increased 49% as a result of increased capital expenditure on furniture, equipment and hardware. EBITDA in 1999 was \$9.3 million, a decrease of 38% from 1998.

Funds available for acquisitions have been invested in short-term bonds and generated interest income in 1999 of \$0.6 million. The increase of 18% from the prior year arose because the funds were generated from the IPO part way through the prior year. Securities having a maturity of over three months are classified as temporary investments.

In 1999 the Company recorded a loss on the translation of its investment in its U.S. subsidiaries. The Company's U.S. dollar costs substantially offset sales in U.S. dollars in the normal course of business and, consequently, reduces the Company's exposure to currency risk.

Financial Condition, Capital Resources and Liquidity

The Company's primary needs are for working capital and capital expenditures to support the growth of its existing operations and to fund acquisitions. Net cash and temporary investments (net of current bank indebtedness) at September 30, 1999 was \$14.2 million compared to

\$22.7 million at September 30, 1998. The Company generated \$5.8 million of cash from operating activities before net changes in non-cash working capital items in fiscal 1999 compared to \$10.1 million in 1998.

Accounts receivable and unbilled work in progress at September 30, 1999 was \$31.3 million, an increase from the prior year-end of 26%. Unbilled work in progress decreased to \$1.4 million at September 30, 1999 from \$2.1 million at September 30, 1998, the decrease arising primarily from the timing of deliverables in two material fixed price contracts. Accounts receivable increased due to volume increases. Average days sales in accounts receivable at September 30, 1999 declined by 2% compared to September 30, 1998, based on annual revenues.

Excluding project financing (discussed below), financing activities provided \$0.5 million in 1999 with the issuance of shares pursuant to the Employee Ownership Plan. A further 185,000 shares with a fair market value of \$2.0 million were issued as part of the purchase price of SI. The weighted average number of shares outstanding for 1999 increased 16% from 1998. The Company and certain shareholders sold shares to the public in an initial public offering (IPO) in April of 1998. Being midway through the calendar year, this reduced the weighted average number of shares outstanding in fiscal 1998.

Sierra Systems' investing activities increased to \$8.8 million in 1999 from \$6.8 million in 1998. Investment in capital assets increased 23%. The Company invested \$3.7 million in cash in the acquisition of SI and \$1 million in cash in the acquisition of PIM.

The Company's long-term debt is related to project financing and is offset by long-term receivables. Any differences are due to the timing of repayments. The sole client at this time with project debt is a major university.

As at September 30, 1999, Sierra Systems' principal sources of liquidity were cash and temporary investments (net of bank indebtedness) of \$14.2 million. The Company believes that these resources, together with the cash provided by future operations and available borrowings under its line of credit, will be sufficient to meet its working capital needs and capital expenditures for the foreseeable future and for acquisitions.



Sierra Systems did not pay dividends in the year and does not intend to pay dividends in the foreseeable future. The dividend policy will be reviewed from time to time.

Risks and Risk Management

Fixed price contracts are an important element of Sierra Systems' business. In entering into such contracts, the Company assumes certain risks in relation to its ability to deliver projects profitably. To reduce risk, Sierra Systems has developed a Corporate Risk Management team to develop ongoing education and to provide an overarching perspective on all aspects of project management.

The Company's growth and continued success depends in a large part on its ability to attract, retain, train and motivate highly skilled personnel. There is significant competition for such employees and the Company has developed comprehensive People Programs designed to ensure its continued competitiveness.

The IT services industry is highly competitive and is characterized by rapid technological change, shifting client preferences and new product developments. The Company's strategy is to place constant emphasis on technology expertise in its career planning and to maintain a rigorous education program. Given the strong competition for resources, Sierra Systems' philosophy is to train employees on an ongoing basis.

The Company's growth strategy is based in part on the ability to find sound acquisition opportunities. Sierra Systems' ability to grow through acquisition, particularly in the United States, may be restrained by its ability to find such opportunities.

To prepare for the Year 2000, internal computer and communication systems have been evaluated and, where necessary, upgraded or replaced. In case of problems, the Company will use the older system at the cost of extra manual intervention.

The Company is not vulnerable to problems in vendor or customer systems except for system-wide infrastructure power, telephone and financial institution failures. Short interruptions in service will not have a material effect and management believes longer interruptions are unlikely. Consequently no contingency provisions have been made regarding these services.

Outlook

The outlook for fiscal 2000 and beyond remains strong. The Company anticipates that strong demand for business solutions utilizing the Internet will lead to significant demand for business solutions consultants with a strong technology focus. Sierra Systems is well positioned to meet this demand with the strong growth demonstrated in the delivery of Internet-enabled solutions in 1999. The Company expects to benefit from the momentum in this sector in the second half of 2000 and increasingly thereafter.

Sierra Systems' strategy is to develop emerging specialty practices timed to offset the maturity of others. The growth of the Enterprise Solutions Practice is slowing. The Company intends to capitalize on its substantial client base in its ESP practice to drive opportunities for extensions of these significant back-end systems onto the Internet.

Sierra Systems foresees strong internal growth, particularly in the absence of the project difficulties encountered in 1999. The Company anticipates strong growth in fiscal 2000, but not at the rate of 1998.

Sierra Systems expects to use available funds for strategic acquisitions primarily in the U.S. Our targets will generally have 50 to 150 staff, be in the systems integration and consulting industry, and have good continuing management. A mixture of cash and shares, the latter to provide incentive to the management team, will finance acquisitions.

Management's Report

November 26, 1999

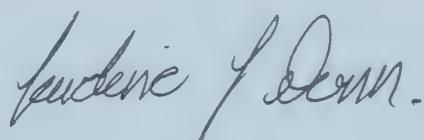
The consolidated financial statements of Sierra Systems Group Inc. have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Company's independent auditors, PricewaterhouseCoopers, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report follows.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.



Grant R. Gisel
Chairman, President and Chief Executive Officer



Caroline J. Dunn
Vice President and Chief Financial Officer



Auditors' Report

November 26, 1999

To the Shareholders of Sierra Systems Group Inc.

We have audited the consolidated balance sheets of Sierra Systems Group Inc. as at September 30, 1999 and 1998 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

PricewaterhouseCoopers LLP

Chartered Accountants

Consolidated Balance Sheets

As at September 30	1999	1998
(in thousands of Canadian dollars)		
Assets		
Current assets		
Cash	\$ 9 089	\$ 11 883
Temporary investments	7 107	12 177
Restricted cash (note 4)	200	784
Accounts receivable, including unbilled work-in-progress	31 266	24 906
Current portion of long-term accounts receivable (note 5)	3 248	4 256
Income taxes recoverable	666	—
Prepaid expenses	887	610
	52 463	54 616
Long-term accounts receivable (note 5)	4 449	5 785
Capital assets (note 6)	7 340	5 225
Deferred income taxes	950	1 046
Goodwill (note 7)	10 611	6 228
	\$ 75 813	\$ 72 900
Liabilities		
Current liabilities		
Bank indebtedness (note 8)	\$ 1 971	\$ 1 397
Accounts payable and accrued liabilities	8 951	6 808
Income taxes payable	—	2 097
Prepaid fees	1 187	1 117
Deferred income taxes	67	617
Current portion of project financing (note 9)	2 920	4 858
	15 096	16 894
Project financing (note 9)	4 449	5 785
	19 545	22 679
Shareholders' Equity		
Capital stock (note 11)	38 048	35 508
Retained earnings	18 220	14 713
	56 268	50 221
	\$ 75 813	\$ 72 900
Commitments (note 12)		

Approved by the Board of Directors

Grant R. Gisel
Director

George A. Fierheller
Director



Consolidated Statements of Retained Earnings

	1999	1998
For the years ended September 30		
(in thousands of Canadian dollars)		
Retained earnings – beginning of year	\$ 14 713	\$ 8 945
Net earnings for the year	3 507	7 812
Consideration paid in excess of paid-up capital of shares repurchased (note 11)	–	(2 044)
Retained earnings – end of year	\$ 18 220	\$ 14 713

Consolidated Statements of Earnings

	1999	1998
For the years ended September 30		
(in thousands of Canadian dollars except for per share and share figures)		
Revenue		
Services	\$ 109 537	\$ 88 180
Product sales	3 552	1 945
	113 089	90 125
Cost of sales		
Compensation	78 669	57 264
Other costs	11 296	8 913
Product costs	2 749	1 680
	92 714	67 857
Gross profit	20 375	22 268
General and administration	10 971	7 684
Amortization of capital assets	2 554	1 717
Earnings from operations	6 850	12 867
Other income (expenses)		
Foreign exchange gain (loss)	(126)	416
Interest	633	539
	507	955
Earnings before income taxes and goodwill amortization	7 357	13 822
Provision for (recovery of) income taxes (note 10)		
Current	4 126	5 483
Deferred	(717)	493
	3 409	5 976
Earnings before goodwill amortization	3 948	7 846
Goodwill amortization	441	34
Net earnings for the year	\$ 3 507	\$ 7 812
Earnings per share before goodwill amortization	\$ 0.45	\$ 1.03
Earnings per share after goodwill amortization	\$ 0.40	\$ 1.03
Fully diluted earnings per share (1999 – anti-dilutive)	\$ –	\$ 1.00
Weighted average number of common shares (note 1)	8 832 636	7 620 088

Consolidated Statements of Cash Flows

For the years ended September 30 (in thousands of Canadian dollars)	1999	1998
Cash flows from operating activities		
Net earnings for the year	\$ 3 507	\$ 7 812
Items not affecting cash		
Amortization of capital assets	2 554	1 717
Amortization of goodwill	441	34
Deferred income taxes	(717)	493
	5 785	10 056
Net change in non-cash working capital items relating to operations	48	(24 601)
Net change in long-term accounts receivable	2 344	(2 835)
	8 177	(17 380)
Cash flows from financing activities		
Project financing – net	(3 274)	5 562
Shares issued	498	31 363
Shares repurchased	–	(550)
	(2 776)	36 375
Cash flows from investing activities		
Purchase of capital assets	(4 083)	(3 310)
Investment in EDM Management Systems Inc.	–	(3 484)
Investment in Pacific International Mapping Corp. (note 2(a))	(964)	–
Investment in Systems Interface Inc. (note 2(b))	(3 722)	–
	(8 769)	(6 794)
Increase (decrease) in cash and cash equivalents	(3 368)	12 201
Cash and cash equivalents (bank indebtedness) – beginning of year	10 486	(1 715)
Cash and cash equivalents – end of year	\$ 7 118	\$ 10 486
Represented by		
Cash	\$ 9 089	\$ 11 883
Bank indebtedness	(1 971)	(1 397)
	\$ 7 118	\$ 10 486
Interest and income taxes (note 3)		

Notes to Consolidated Financial Statements

For the years ended September 30, 1999 and 1998

(amounts in tables are in thousands of Canadian dollars except share figures)

1. Summary of significant accounting policies

Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Associated companies are consolidated on a proportionate consolidation basis. Principal operating subsidiaries are Sierra Systems Consultants Inc., Sierra/Computech Consulting Inc., EDM Management Systems Inc. (EDM), Pacific International Mapping Corp. (PIM) and Systems Interface Inc. (SI).

Revenue recognition

The Company recognizes its revenue as services are performed. Revenue is recognized on fixed price contracts using the percentage-of-completion method of accounting. Adjustments to fixed price contracts and estimated losses, if any, are recorded in the period when such adjustments or losses are known. On risk-sharing contracts, billings for subcontractors and equipment supply, for which there is no mark-up, are recorded as recoverable expenses within cost of services rather than as revenue.

Translation of accounts of foreign subsidiaries

Accounts of foreign subsidiaries are translated into Canadian dollars using the temporal method as follows:

- a) monetary assets and liabilities at the year-end rate of exchange
- b) non-monetary assets, liabilities and capital stock at historical rates of exchange
- c) revenue and expenses at average rates for the year, except for amortization, which is translated at exchange rates used in the translation of the relevant asset accounts.

All gains and losses arising from the translation of foreign currencies are included in net earnings for the year.

Temporary investments

Temporary investments comprise short-term money-market securities with maturities of 90 to 365 days and are valued at the lower of cost and net realizable value.

Work-in-progress

Work-in-progress is valued at estimated realizable value less a provision for estimated losses.

Capital assets

Capital assets are carried at cost. Amortization is calculated over their estimated useful lives using the declining balance method at the following annual rates:

Furniture and equipment	20 - 30%
Computer hardware	30%
Computer software	100%
Leasehold improvements	over the remaining life of the lease

One-half of the year's amortization is recognized in the year of acquisition.

Goodwill

Goodwill arising on acquisitions is amortized over 15 to 20 years using the straight-line method. Goodwill is written down when declines in value are considered to be permanent, based on estimated future cash flows.

Prepaid fees

Fees received in advance are deferred and matched against billings as services are performed.





Income taxes

The Company follows the deferral method of income tax allocation. Deferred income taxes result from timing differences between financial statement and income tax reporting principally relating to the recognition of revenue and accumulated amortization. The current portion of deferred income taxes relates to amounts included in current assets and current liabilities.

Earnings per share

Basic earnings per share are calculated based upon the weighted average number of common shares outstanding during the period. The 1998 earnings per share have been calculated after giving effect to the reorganization (note 11).

Fully diluted earnings calculations, if dilutive, assume that options under the stock option plan have been exercised at the earlier of the beginning of the period or date of issuance and that funds derived therefrom would be invested at current market rates.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates; however, management does not believe these differences would have a material effect on operating results.

2. Acquisitions

1999

a) Pacific International Mapping Corp. (PIM)

Effective July 1, 1999, the Company acquired all of the outstanding shares of PIM, a company specializing in spatial mapping systems. The cost of the acquisition was \$964,000.

The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values at July 1, 1999, as follows:

Net assets at fair values

Working capital	\$	285
Capital assets		381
Goodwill		298
Cost of acquisition	\$	964
Consideration given		
Cash	\$	964

The operating results of the acquired business have been included, on a consolidated basis, in the financial statements of the Company from July 1, 1999.

b) Systems Interface Inc. and Donna Cona Inc.

On September 1, 1999, the Company acquired all of the outstanding shares of Systems Interface Inc. (SI), a company providing system integration services. Through the acquisition of SI, the Company also acquired a 49% interest in Donna Cona, Inc. (DC), an aboriginal information technology company. The cost of the acquisition was \$5,764,000.

The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values at September 1, 1999, as follows:

Net assets at fair values

Working capital	\$	1033
Capital assets		205
Goodwill		4526
Cost of acquisition	\$	5764
Consideration given		
Cash		3722
Common shares		2042
	\$	5764



The operating results of the acquired businesses have been included, on a consolidated basis, in the financial statements of the Company from September 1, 1999. The accounts of DC have been included on a proportionate consolidation basis.

1998

EDM Management Systems Inc. (EDM)

On September 1, 1998, the Company acquired all of the outstanding shares of EDM, a company specializing in information technology consulting services. The cost of the acquisition was \$6,403,000.

The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values at September 1, 1998, as follows:

Net assets at fair values			
Capital assets		\$	141
Goodwill			6 262
Cost of acquisition		\$	6 403
Consideration given			
Cash		\$	3 484
Common shares			2 919
		\$	6 403

The operating results of the acquired business have been included, on a consolidated basis, in the financial statements of the Company from September 1, 1998.

3. Statements of cash flows

	1999	1998
Interest paid	\$ 695	\$ 514
Interest received	1 703	723
Income taxes paid	6 914	3 710
Income taxes refunded	65	—

4. Restricted cash

At September 30, 1999, \$200,000 (1998 – \$784,000) was being held as a project performance deposit required by a customer. The deposit will be released to the Company upon completion of the project.

5. Long-term accounts receivable

The long-term accounts receivable relate to certain long-term projects for which the Company has arranged project financing (note 9). All payments received on the contracts are applied to pay interest and reduce the loans, and the long-term accounts receivable has been pledged as security for the loans. Included in long-term accounts receivable is interest at the same rates and in the same amounts as the project financing. At September 30, 1999, the current portion of the long-term accounts receivable amounted to \$3,248,000 (1998 – \$4,256,000).

6. Capital assets

	1999		
	Cost	Accumulated amortization	Net
Furniture and equipment	\$ 5 024	\$ 2 678	\$ 2 346
Computer hardware	7 830	3 707	4 123
Computer software	2 361	2 087	274
Leasehold improvements	881	284	597
	\$ 16 096	\$ 8 756	\$ 7 340
	1998		
	Cost	Accumulated amortization	Net
Furniture and equipment	\$ 3 534	\$ 2 581	\$ 953
Computer hardware	5 603	2 203	3 400
Computer software	1 835	1 263	572
Leasehold improvements	455	155	300
	\$ 11 427	\$ 6 202	\$ 5 225

7. Goodwill

	1999	1998
Goodwill, net of accumulated amortization of \$475 (1998 - \$34)	\$ 10 611	\$ 6 228

8. Bank indebtedness

The Company has operating bank lines of credit of \$5,000,000 and U.S. \$250,000. Accounts receivable have been pledged as security for the bank indebtedness.

9. Project financing

The Company has arranged project financing from a Canadian bank for approximately \$9,550,000 (1998 - \$16,382,500) on a long-term contract. The financing is advanced monthly based upon the value of services performed. The related long-term accounts receivable (note 5) are pledged as security for the project financing. The project financing comprises:

	1999	1998
Bank loans up to a maximum of \$6,832,500, with interest at bank prime rate plus 1/2 %, repayable on demand	\$ -	\$ 1 938
Bank loan up to a maximum of \$9,550,000, with interest at bank prime rate plus 1/2 %, capped at a maximum of 5.5%, repayable in monthly instalments of \$243,333 until 2003	7 369	8 705
	7 369	10 643
Less: Current portion	2 920	4 858
	\$ 4 449	\$ 5 785

10. Income taxes

	1999	1998
Earnings before income taxes, less goodwill amortization	\$ 6 916	\$ 13 788
Expected provision	3 112	6 228
Increase (decrease) resulting from		
Non-deductible expenses	305	104
Foreign tax differential	157	(192)
Other	(165)	(164)
Reported income tax provision	\$ 3 409	\$ 5 976

11. Capital stock

Authorized

100,000,000 common shares without par value

50,000,000 preferred shares without par value

Issued

	Number of common shares					Amount
	Class A	Class B	Class C	Common	Total	
Balance - September 30, 1997	2 633 492	896 229	109 172	-	3 638 893	\$ 1 537
Issued for cash	359 829	-	80 790	-	440 619	507
Redeemed	-	-	(189 962)	-	(189 962)	(2)
Exercise of stock options	1 188 198	-	-	-	1 188 198	1 328
Cancellation of shares purchased	(504 935)	-	-	-	(504 935)	(309)
Share reclassification	(3 676 584)	(896 229)	-	4 572 813	-	-
Stock split (3 for 2)	-	-	-	2 286 407	2 286 407	-
Initial public offering - net of issue costs	-	-	-	1 691 453	1 691 453	28 787
Exercise of stock options	-	-	-	13 151	13 151	237
Issued pursuant to the ESOP	-	-	-	118 500	118 500	504
Issued for acquisition (note 2)	-	-	-	125 838	125 838	2 919
Balance - September 30, 1998	-	-	-	8 808 162	8 808 162	35 508
Issued pursuant to the ESOP				28 988	28 988	498
Issued for acquisition (note 2)				184 735	184 735	2 042
Balance - September 30, 1999				9 021 885	9 021 885	\$ 38 048



1999

- a) During the year, the Company issued 28,988 common shares under the Employee Share Ownership Plan (ESOP).
- b) During the year, the Company granted stock options to directors and employees of the Company to acquire up to 257,000 common shares at prices ranging from \$14.50 to \$28 with expiry dates ranging from April 7, 2004 to September 1, 2005. Only one fifth of the common shares covered by an option can be taken up in any one year after the date that the option has been granted. At September 30, 1999, there were 957,171 stock options outstanding. During the year, 19,969 stock options were cancelled.
- c) As at September 30, 1999, there were 2,465,259 common shares held in escrow; 2,224,041 can be released in equal instalments on April 21, 2000 and 2001, respectively. 56,483 common shares issued in respect of the acquisition of EDM (note 2) can be released in the proportions of three quarters on September 1, 2000 and one quarter on September 1, 2001. 184,735 shares relating to the acquisition of SI (note 2) can be released in equal instalments on September 1, 2000, 2001 and 2002.

1998

- a) On April 21, 1998, the Company completed an initial public offering. Prior to the closing of the offering:
 - i) the Company redeemed all of the outstanding Class C shares
 - ii) the Company issued 1,188,198 Class A common shares at a price of \$0.01 pursuant to outstanding options, and cancelled options to purchase 180,291 Class A common shares
 - iii) 504,935 Class A shares owned by subsidiaries of the Company were cancelled. The amount paid for the shares of \$2,406,733 has been charged as follows:
 - \$308,602 to capital stock
 - \$54,091 to contributed surplus, and
 - \$2,044,040 to retained earnings.
 - iv) all Class A and Class B shares were reclassified as common shares
 - v) the common shares were subdivided so that every two common shares became three common shares.Pursuant to the initial public offering, the Company issued 1,691,453 common shares at \$18 per share for total proceeds net of issue costs of \$28,787,000.
- b) During the year, the Company issued 118,500 common shares under the Employee Share Ownership Plan (ESOP).
- c) During the year, the Company granted stock options to directors and employees of the company to acquire up to 741,396 common shares at prices ranging from \$18 to \$34 with expiry dates ranging from April 13 to September 25, 2003 (of which 466,896 were in settlement of outstanding options under plans initiated prior to the initial public offering). Only one fifth of the common shares covered by an option can be taken up in any one year after the date that the option has been granted. At September 30, 1998, there were 720,176 stock options outstanding. During the year, 8,105 stock options were cancelled.
- d) As at September 30, 1998, there were 3,420,781 common shares held in escrow; 3,336,061 can be released in equal instalments on April 21, 1999, 2000 and 2001, respectively. 84,720 common shares issued in respect of the acquisition of EDM (note 2) can be released in the proportions of one third, one half, and one sixth on September 1, 1999, 2000 and 2001, respectively.

12. Commitments

The Company is committed to minimum annual lease payments on its premises, excluding operating costs, as follows:

2000	\$ 1 876
2001	3 228
2002	3 289
2003	2 986
2004	2 584
2005 and thereafter	<u>12 030</u>
	\$ 25 993

13. Business segment information

The Company operates in one business segment – providing IT services. The Company primarily operates in Canada and the United States.

	1999		
	Canada	U.S.	Total
Revenue	\$ 79 220	\$ 33 869	\$ 113 089
Capital assets and goodwill	15 642	2 309	17 951
	1998		
	Canada	U.S.	Total
Revenue	\$ 61 435	\$ 28 690	\$ 90 125
Capital assets and goodwill	10 421	1 032	11 453

14. Financial instruments

a) Financial risks

Financial risk to the Company's earnings arises from the fluctuations in foreign exchange rates and in interest rates and the degree of volatility of these rates. The Company has not used derivative instruments to reduce its exposure to interest or currency risk. Compensation and other costs in U.S. dollars significantly offset sales in U.S. dollars in the normal course of business and, consequently, reduce the Company's exposure to currency risk.

b) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. With the exception of long-term contracts (note 5) totalling \$7.7 million at September 30, 1999 (1998 – \$10.0 million), the Company's credit concentrations are limited due to the wide variety of customers and markets into which the Company's services are sold.

c) Fair values

The fair values of the Company's cash, temporary investments, accounts receivable, and accounts payable and accrued liabilities are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair values of the long-term accounts receivable and project financing are estimated to approximate their carrying values because they each bear interest at floating rates.

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15. Uncertainty due to the Year 2000 issue

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

Directors and Officers

Board of Directors

Grant R. Gisel, Chairman, President and Chief Executive Officer

Ian U. Reid, Executive Vice President and Director (retired September 30, 1999)

Leslie Ann Ingram, Vice President and Director

Robert H. Birch, Vice President and Director

George A. Fierheller, Director

Robert W. Murdoch, Director

Peter F. Webb, Director

Frederick R. Wright, Director

Officers

Grant R. Gisel, President and Chief Executive Officer

Leslie Ann Ingram, Vice President

Robert H. Birch, Vice President

Caroline J. Dunn, Vice President and Chief Financial Officer

Susan L. Jeffery, Corporate Secretary



Board of Directors (left to right): Frederick Wright, Leslie Ann Ingram, George Fierheller, Robert Birch, Ian Reid, Peter Webb, Robert Murdoch, Grant Gisel

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held in the Cheakamus Room at The Waterfront Centre Hotel, 900 Canada Place Way, Vancouver, BC, on Monday, February 21, 2000 at 11:00 a.m. PST.

All shareholders are cordially invited to attend.

Enter

Corporate Information

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Fax: 604.688.6482

Stock Exchange
Toronto Stock Exchange
Trading Symbol—SSG

Transfer Agent
CIBC Mellon Trust
Vancouver, BC

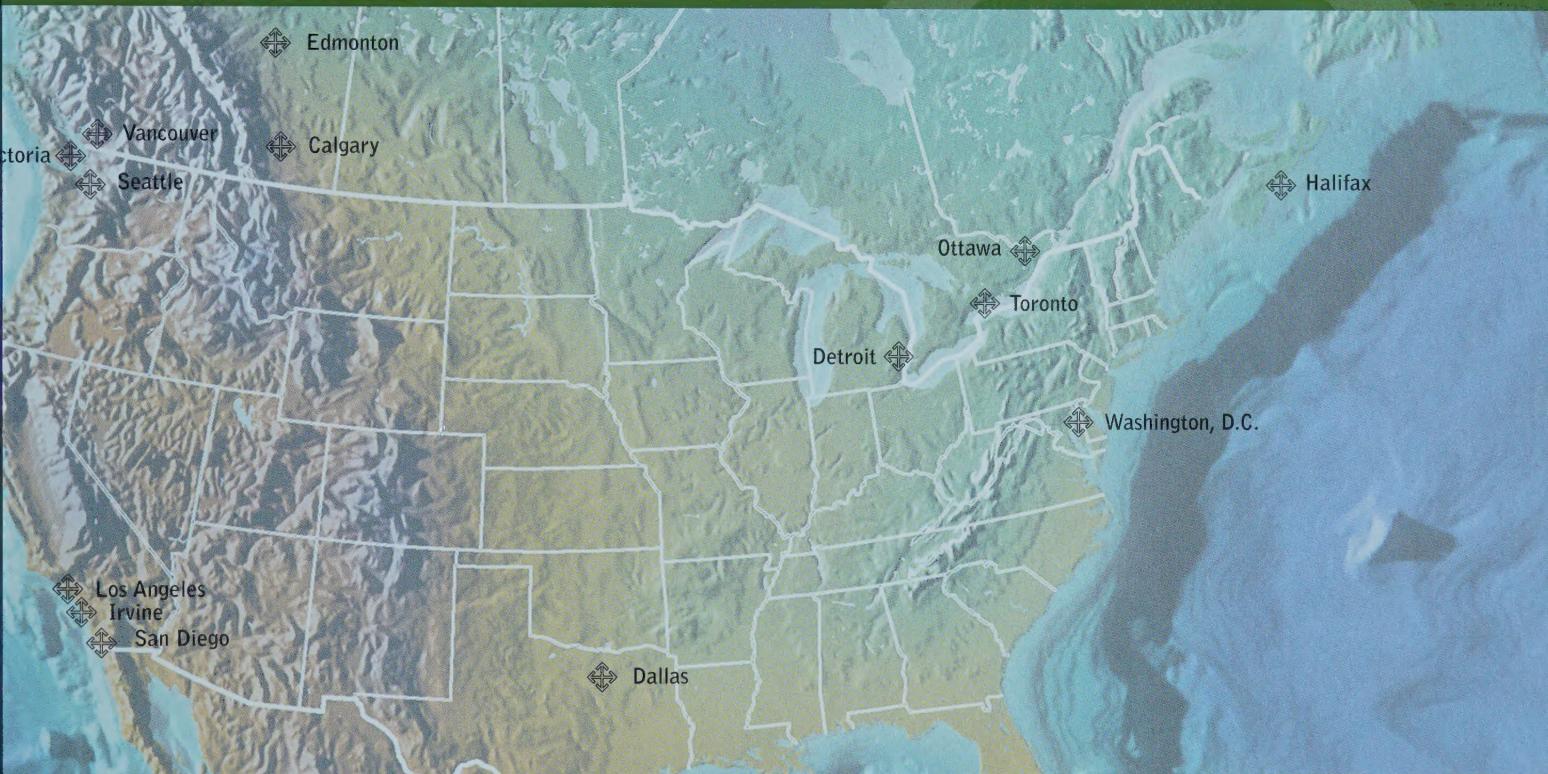
Banker
Royal Bank of Canada
Vancouver, BC

Legal Counsel

Lang Michener Lawrence & Shaw
Barristers & Solicitors
Vancouver, BC

Auditors
PricewaterhouseCoopers
Chartered Accountants
Vancouver, BC

Investor Relations
Susan L. Jeffery
604.891.6213





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